Taloustieteiden tiedekunta

Tentin päivämäärä / Date of exam: **4.12.2014**	
Opintojakson koodi, nimi ja tentin numero / The code and the name of the course and number of the exam: 721137S International Financial Reporting (Final exam 2)	
Tentaattori(t)/ Examiner(s): **Anna Elsilä**	
Sallitut apuvälineet / The devices allowed in the exam: ☐X Laskin (ei graafinen/ohjelmoitava)/Calculator (not graphic, programmable) ☐X Sanakirja/Dictionary ☐ Muu materiaali, tarkennettu alla/Other material, specified below	
Tenttiin vastaaminen / Please answer the questions ☐ suomeksi/ in Finnish	☐X englanniksi/ in English
Kysymyspaperi on palautettava / Paper with exam questions must be returned: ☐ Kyllä/Yes	☐X Ei/No

Note: Your feedback will help me to develop the course, so please do not hesitate to let me know what worked and what did not in the course (either anonymously through the WebOodi or directly visiting my office TA329).

Question 1

P9-16

Applying lower of cost or market (LCM) **(LO 10)**

Ramps by Jake, Inc., manufactures skateboard ramps. The company uses independent sales representatives to market its products and pays a commission of 8% on each sale. Data regarding the five styles of ramps in the company's inventory at December 31, 2011, follow. The normal profit margin on each style is expressed as a percentage of the item's selling price.

Inventory Item	Original Cost	Replacement Cost	Selling Price	Normal Profit Margin %
Style A	$150	$155	$210	35%
Style B	198	195	275	40
Style C	83	77	130	30
Style D	275	280	290	30
Style E	420	430	450	20

Required:

Determine the appropriate inventory value to use for each item in the company's December 31, 2011, inventory under U.S. GAAP.

P9-17

Applying lower of cost or market (LCM) under IFRS **(LO 10, 11)**

Refer to the facts in Problem 9-16. Repeat the requirements using IFRS instead of U.S. GAAP.

(Continues on the other side)

Question 2

Below is a news excerpt from the PricewaterhouseCoopers Finland website:

Tax Accounting Implications – tax rate change in Finland

Overview

The Finnish tax rate change from 24.5% to 20% from 1 January 2014 was substantially enacted for the purposes of IAS 12, Income taxes on 17 December 2013. Deferred tax should be recorded at the new rate in Q4 2013.

The Finnish Government announced a 4.5% decrease in the corporate income tax rate in spring 2013 and this was further confirmed in budget announcements in August 2013. The Government Bill introducing the corporate income tax rate change (HE 185/2013 vp) was passed by the Parliament on 17 December 2013 and was signed by the President on 30 December 2013.

Required:

1. Explain how the abovementioned legislation affects balance sheet and income statement of Finnish listed companies in 2013 and 2014. Support your answer with a numerical example.
2. As a financial analyst, how would you use the information in the excerpt when performing time-series analysis of financial statements of Finnish listed companies?

Question 3

Cornwell Construction Company has been operating in Pennsylvania for a number of years. During 2011, the firm contracted with the Borough of Lewisburg to build a domed sports complex. Cornwell estimated that it would take three years to complete the facility at a total cost of $25 million. The total contract price was $30 million. During 2011, construction costs of $8.5 million were incurred related to the sports complex, including $500,000 in materials purchased in 2011 but not yet used; estimated additional costs to complete the project were $15.5 million as of December 31, 2011. Contract billings through December 31, 2011, were $9 million of which the Borough of Lewisburg had paid $7.5 million.

P3-4

Income recognition on long-term contracts **(LO 1, 2)**

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Required:

1. Prepare schedules to calculate the amount of income to be recognized by Cornwell Construction on the sports complex for the year ended December 31, 2011, using each of the following methods:
   a. Completed-contract method.
   b. Percentage-of-completion method.
2. Prepare all necessary journal entries related to the project for 2011 assuming:
   a. The percentage-of-completion method is appropriate.
   b. The completed-contract method is appropriate.